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C O R R E C T E D C O P Y (SENSITIVE HANDLING INDICATOR ADDED)

SENSITIVE

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SUBJECT: KENYA ECONOMIC NOTES: MARCH 2009

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¶1. (SBU) ECONOMIC ADVISOR TO CABINET: "GET REAL"

Prime Minister Odinga's chief economic advisor recently told Econ/C that the Kenyan political leadership, including decision makers at the Central Bank, is underestimating the impact of the global economic crisis on Kenya. The advisor, a Japanese professor with extensive IMF experience, will brief Cabinet in early March on the possibility of only 1% GDP growth (roughly equivalent to negative 2% per capita) in 2009. He said he would advise Cabinet to "get real" about the state of the economy in hopes of steering policy towards lower food inflation and growth. The advisor expressed concern over the possibility of unrest due to high food costs and declining employment. He said the government would vigorously "tin-cup" donors to avoid cuts in capital expenditures, noting the challenge of attracting direct budget support in light of the endemic corruption here (reftel).

Note: Remittances, the largest source of foreign exchange and a key social safety net, have dropped by over 25% from Jan '08 to Jan '09.

¶2. (SBU) IMF DELEGATION EXPLORES SUPPORT FOR KENYA

An IMF mission is in Kenya Feb 23-Mar 6 to discuss the government's request for access to IMF resources under the Exogenous Shocks Facility. A fundamental objective of this mission will be to reach a comprehensive understanding of the government's economic agenda for fiscal years 2008/09 and 2009/10, including how it intends to finance its emergency food relief program and "Kazi Kwa Vijana" (a

youth employment initiative). The GOK is running a Ksh 70 billion ($875 million) deficit. Kenya may seek as much as $300 million in IMF funding to help stabilize the shilling/provide balance of payments support, if necessary, and/or provide cheap financing from the Central Bank (where the IMF would essentially deposit the funding) to the government. Conditionality will generally revolve around appropriate macro policies to address the effects of the global crisis. At a mission kick-off meeting and at a later briefing with Ambassadors, donors made clear their lack of appetite for direct budget support to the GOK due to corruption and an inability to utilize assistance that has been provided; donors indicated some willingness to supply additional assistance to WFP to alleviate food shortages. The IMF delegation will brief donors on their finding March 6 (septel).

¶3. (SBU) HORTICULTURE EXPORTERS LOOK TO U.S. MARKET

The Ministry of Agriculture has reported that the Kenyan horticulture sector earned 29% more in 2008 than in 2007, despite early 2008 ethnic violence and the global economic crisis. In 2008 the sector earned KSh73.7 billion (about $982 million) to become the country's number one foreign exchange earner (remittances, usually estimated at $1 billion annually, not withstanding). Export volumes, led by the sales of cut flowers and processed vegetables and fruits to the EU, increased by 9.8% to 423,000 tons. The EU market, led by the UK's 33% market share, accounted for 82.4% of Kenyan horticultural sales.

Horticulture industry representatives remain hopeful that - despite the economic slump - Kenya will increase its exports of cut flowers, prepared bouquets, shelled peas, baby corn, and baby carrots to the United States. In late February 2009, Dr. Stephen Mbithi, the executive director of the Fresh Produce Exporters Association of Kenya (FPEAK), welcomed the announcement by the US Department of Agriculture Secretary Tom Vilsack that the United States had decided to reintroduce stricter traceability guidelines for imports of fresh produce and meat under the USDA's country of origin labeling program. Saying that Kenya has a "reliable self-regulatory mechanism" and quality control surveillance system certified by USDA inspectors, Dr. Mbithi suggested that "traceability will only work to our advantage because, unlike other producing countries, there is no negative sentiment associated with our fresh produce."

Jane Ngige, the CEO of the Kenya Flower Council (KFC -- a trade association of 72 cut flower exporters), confided to econoff March 2 that Valentine's Day 2009 sales were down sharply from the previous year. Whereas the industry had persevered following the January-February 2008 post-election upheaval, Ngige said it is beginning to feel the effects of the global financial crisis. Explaining that the cold weather in Europe had people shoveling snow rather than buying flowers, Ngige revealed that cut flower sales to Europe plummeted 25% during Valentine's. She and other industry leaders are appealing to the Kenyan government to "cushion" the industry by declaring the flower farms economic processing zones, thus making them eligible for a variety of tax holidays. The tax breaks, she maintained, would keep "our heads above the waters; otherwise we may well see several flower farms go under." Aside from appealing to the government for tax relief, Ngige said the KFC is determined to increase sales to Japan and Eastern Europe. The association is also anxiously awaiting the scheduled early June 2009 of direct Delta U.S.-Kenya flights, which Ngige and the growers believe will help resuscitate the industry.

¶4. (SBU) KENYAN TRAVEL TO THE U.S. DECLINES

During the past five months, the Consular Section has noted a 15% spike in the rate of NIV interview "no-shows" over the same period last year; visa adjudications are down nearly 12%. The increase in "no-show" applicants could reflect tough economic times as roughly the same number of applicants are making the initial appointments (there is no fee for making an appointment online) but are having second thoughts once it comes to paying the Machine Readable Visa (MRV) application fee of $131.

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